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C O N F I D E N T I A L SECTION 01 OF 02 MINSK 000674

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DEPT FOR EB/ESC/IEC GALLOGLY AND GARVERICK
DOE FOR HARBERT/EKIMOFF/PISCITELLI/TILLER

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TAGS: [EPET](#) [PGOV](#) [PREL](#) [BO](#) [RS](#)

SUBJECT: TWO DAYS FOR LUKASHENKO TO FIND A COMPROMISE

REF: A. MINSK 182

[1](#)B. MINSK 013

[1](#)C. MINSK 620

[1](#)D. MINSK 654

Classified By: A/DCM Kirby Nelson for reason 1.4 (d).

Summary

[1](#)1. (C) Gazprom's surprise announcement that it will reduce gas transfers to Belarus by 45 percent effective August 3 follows the company's longstanding policy of publicly stating it wants to move its dealings with Minsk to a market basis. Unlike negotiations over gas and oil pricing for 2007, defying Moscow this time around would mean Lukashenko would have to articulate a justification for breaking a standing contract, putting him in a much more difficult position. Paying up -- Belarus has the money -- represents his safest option. End summary.

Gazprom Takes Market Mechanism to Their Logical Conclusion

[1](#)2. (C) Gazprom's August 1 announcement that it will reduce gas transfers to Belarus by 45 percent effective 10:00 Moscow time August 3 caught the Belarusian government and analysts off guard. In retrospect the move makes perfect sense, according to "Belgazeta" economic correspondent Sergey Zhbanov. He stressed to Acting Pol/Econ Chief that Gazprom laid the groundwork very professionally for making the claim that the Russian company has met all of its contractual obligations and is merely seeking to enforce the existing contract, i.e. if Belarus insists on only paying 55 percent of the amount specified Gazprom will accordingly only supply 55 percent of the gas.

Belarusian Options Less Attractive Than in January Dispute

[1](#)3. (C) In January Lukashenko used the unilateral imposition of an oil export duty to good effect, styling himself as the defender of Belarusian independence (ref A). In the relatively warm month of August Russia's actions will look less threatening to a public preoccupied by vacations and dachas. Zhbanov opined that Lukashenko, as an excellent propagandist, would realize the same rhetoric that worked in January would fail to impress the Belarusian public in August. Ukrainian Political Counselor Mariya Levada was less certain, telling Acting Pol/Econ Chief Lukashenko's recent

actions -- piling up significant debt, seeking a further loan from Russia, and purging the upper ranks of the BKGB (ref C) - gave the appearance the dictator was preparing to do battle.

14. (C) Siphoning off gas destined for EU markets, as Belarus did with oil in January (ref B), would only attract the ire of Brussels, according to Zhdanov. It would be difficult for the EU not to blame Lukashenko for failing to fulfill contractual obligations, he argued. Moreover, World Bank Belarus country economist Marina Bakanova confirmed Belarus has the foreign reserves (boosted in part by the USD 625 million payment it received from Gazprom for the initial packet of shares in Beltransgaz) to pay off its over USD 500 million debt and begin paying the full price for gas immediately.

Desperately Seeking One More Share of Beltransgaz?

15. (C) "Belarusi y rynek" correspondent Tatyana Manenok did not exclude GOR attempts to use the conflict to push for privatization of one or two Belarusian state-owned enterprises by Russian companies on favorable terms. The choicest privatization would include selling one more share of Beltransgaz to Gazprom to give the Russian gas giant a controlling stake in three years, according to Manenok. Zhdanov held that specifying the sale of state assets would not fit with the Gazprom strategy of presenting itself as simply enforcing a contract. He added, however, that Gazprom would certainly not turn down extra Beltransgaz shares as payment.

Looking for a Face Saving Way Out?

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16. (C) Bakanova suggested Belarus would pay up if it could obtain any small concession that allowed Lukashenko to claim his obstinance had helped Belarus. Such concessions could include conclusion of an agreement for the USD 1.5 billion credit from Russia (rejected by Belarus in July 30 negotiations allegedly because the interest rate of 12 percent was deemed too high), or an agreement Belarus could begin -- in 2008 -- paying less than the full amount for gas (and again running up debt). Zhdanov proposed that the GOR purposely left Lukashenko no face saving way out in order to once again express their dissatisfaction with Moscow's one time ally.

Comment: Pride Goeth Before a Fall

17. (C) In forcing negotiations to a head immediately after Lukashenko named a new Beltransgaz director (ref D), Moscow made it difficult for the Belarusian dictator to blame the failure of talks on his subordinates. For Lukashenko the easiest move in the short term is to pay up and claim victory if he can secure some relatively minor concession from Russia. In the longer term, when it becomes more apparent higher energy prices will make it impossible to reach economic targets, Lukashenko could still have Prime Minister Sidorskiy around to take the blame.

Stewart